United Nations E/C.18/2016/2

Economic and Social Council

Distr.: General
29 July 2016

Original: English

Committee of Experts on International Cooperation in Tax Matters
Twelfth session
Geneva, 11-14 October 2016
Item 3 (b) (iv) of the provisional agenda*
Discussion of substantive issues related to international cooperation in tax matters: other issues: capacity-building

Enhancing the effectiveness of external support in building tax capacity in developing countries

Note by the Secretariat

1. Ministers of Finance and Central Bank Governors of the Group of 20, in their communiqué dated 27 February 2016, called upon the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), the United Nations and the World Bank Group to recommend mechanisms to help ensure effective implementation and funding of technical assistance programmes and to report back to the meeting of the Ministers of Finance and Central Bank Governors of the Group of 20 on 23 and 24 July 2016.

2. In response to that request, the four organizations, working jointly as members of the newly established Platform for Collaboration on Tax, developed a series of recommendations and enabling actions, drawing on their individual experiences in delivering technical cooperation projects and their interactions with other providers of technical assistance, development partners and, particularly, national Governments. These recommendations benefited from a public request for feedback, which attracted responses from Governments, businesses, civil society and individuals.

3. The annex to the present note reproduces the executive summary and the summary of recommendations included in the report of IMF, OECD, the United Nations and the World Bank Group submitted to the Group of 20, entitled "Enhancing the effectiveness of external support in building tax capacity in developing countries". Ministers of Finance and Central Bank Governors of the Group of 20 acknowledged the report at their meeting held in Chengdu, China, on 23 and 24 July 2016, and asked for a progress update by mid-2017. The full text of the report is posted online on the Financing for Development Office website (www.un.org/esa/ffd/tax-cooperation/tc_report-tax-collaboration-in-building-tax-capacity.html). The present note is submitted to the Committee of Experts on International Cooperation in Tax Matters, as well as to observers attending its twelfth session, for information and to seek further feedback.

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Annex

Extract from the report of the International Monetary Fund, the Organization for Economic Cooperation and Development, the United Nations and the World Bank Group to the Group of 20 on enhancing the effectiveness of external support in building tax capacity in developing countries

I. Executive summary

1. The present report responds to the request made in February 2016 by the Ministers of Finance and Central Bank Governors of the Group of 20 for the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), the United Nations and the World Bank Group to recommend mechanisms to help ensure effective implementation of technical assistance programmes, to recommend how countries can contribute funding for tax projects and direct technical assistance, and to report back with such recommendations at the meeting of the Group of 20 on 23 and 24 July 2016.

2. The report has been prepared within the framework of the Platform for Collaboration on Tax, under the responsibility of the secretariats and staff of the four mandated organizations. The report reflects a broad consensus among these staff, but should not be regarded as the officially endorsed views of those organizations or of their member States.[a,b]

3. The request arises in the context of increased recognition of the centrality to development of strong tax systems, of the importance of external support in building them and of the correspondingly increased willingness of advanced economies to provide substantially greater financing and other support for this purpose. It is recognized that, while real progress has been made in increasing tax revenues in low income countries over the past two decades, for many countries revenues remain well below the levels that are likely needed to achieve the 2030 Sustainable Development Goals and to secure robust and stable growth. The report also adopts, as a fundamental premise, that it is not simply how much revenue is raised that matters for development and growth, but also how it is raised — and that strong tax systems are key for both equity objectives and enhancing State-building.

4. In that context, the report uses the experiences of the international organizations to analyse how support for developing tax capacity can be improved. It does not attempt to reiterate the nature of the challenges faced by developing countries, about which much has been written — but rather focuses on ensuring that the countries have the support needed to overcome those challenges.

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[a] Reflecting these facts, it should be noted that, to the extent that recommendations included herein imply that certain tasks will be undertaken by the Platform for Collaboration on Tax, implementation would be premised on adequate resources being made available to do so.

[b] The report has benefited from comments submitted by countries, civil society organizations, business organizations and individuals received during a public review period (30 June-8 July 2016).

5. An indispensable prerequisite for improving tax capacity is enthusiastic country commitment. While such political commitment must arise within the country and its Government and cannot be created by external support, the report assesses ways in which such support can encourage and reinforce that necessary commitment. Given such commitment, the report points to several key enablers to building tax capacity:

- A coherent revenue strategy as part of a development financing plan
- Strong coordination among well-informed and results-oriented providers
- A strong knowledge and evidence base
- Strong regional cooperation and support
- Strengthened participation of developing countries in international rule setting.

6. The report provides a number of recommendations for measures to strengthen or achieve those enablers, foremost among which include: (a) options through which the Group of 20, international organizations and other development partners can encourage political support for the development of tax systems; (b) the development of country-owned medium-term revenue strategies, or tax reform plans, depending on country circumstances; (c) support to non-government stakeholders; (d) support by development partners in increasing managerial and technical skills in taxation agencies; (e) various approaches to developing better coordination and collaboration among providers, and avoidance of fragmented support and approaches; (f) intensification of work by the partners in the Platform for Collaboration on Tax Matters and others in order to produce comparable and reliable data; (g) increased partnerships and support for regional tax organizations; and (h) support for the effective participation of developing countries in international tax policy discussions and institutions.

7. The agenda going forward would include implementation of 3 to 5 pilot medium-term revenue strategies; support for the effective participation of developing countries in international tax policy discussions and institutions; work by the international organizations to measure and report on the impact of various different interventions; and a follow-up report by the international organizations within three years to reflect lessons learned from actions taken hereunder.

II. Summary of recommendations

The Essential: Deep country commitment within a supportive political environment

8. **Recommendation 1**: The Group of 20, international organizations and development partners should encourage political support for the development of tax systems. Options include explicit requirements for financial support and mutual accountability provisions such as those in the Addis Tax Initiative.

Enabler 1: A coherent revenue strategy as part of the development of financing plans

9. **Recommendation 1 (a)**: National authorities, with support from international organizations that are active in a country, and development partners engaged in support on tax reform to develop country-specific midterm revenue strategies,[c] with a view to launching 3 to 5 pilot strategies by July 2017. Building on this experience, Platform partners will draw and disseminate lessons for the development of further strategies and of revenue reform plans more generally.

10. **Recommendation 1 (b)**: Donor/Group of 20 countries to encourage and facilitate capacity-building of local stakeholders (including businesses, civil society organizations and the media) to engage in reforms and the development of midterm revenue strategies.

Enabler 1.1: Adequate diagnosis of problems, risks and options for revenue strategy development

11. **Recommendation 1 (c)**: International organizations to develop a diagnostic tool/framework for assessing cross-border tax issues, covering avoidance, evasion and tax crimes.

Enabler 1.2: A strong managerial and skills base to develop and implement reform strategies

12. **Recommendation 1 (d)**: As part of the efforts to build organizational capacity, the Group of 20 and development partners to encourage and support the development of high quality senior management, including in technical and management skills in agencies that deal with taxation.

13. **Recommendation 1 (e)**: Partners in the Platform for Collaboration on Tax Matters will review and assess the use of diagnostic tools (such as the Tax Administration Diagnostic Assessment Tool) in informing the prioritization of reforms through midterm revenue strategies and the development of tax reform programmes, and will consider, as a result of such assessments, what more, if anything, would be useful in this regard.

Enabler 2: Strong coordination among well-informed and results-oriented providers

14. **Recommendation 2 (a)**: International organizations involved at the country level should facilitate explicit collaboration among providers and other stakeholders as a central part of the pilot midterm revenue strategies and, more broadly, facilitate the development of in-country coordination, both by donor groups and coordinating counterparts in developing countries.

15. **Recommendation 2 (b)**: To support country-level cooperation, Partners in the Platform for Collaboration on Tax Matters to develop a manual for good practices building on the 10 Principles for International Engagement in Supporting Developing Countries in Tax Matters promulgated by OECD in 2012 and a voluntary peer review mechanism among development partners. This would include

[c] Issues to be addressed include incentives for countries to participate, the phasing of implementation, building in flexibility to deal with potential policy changes as Government and circumstances change, stakeholder involvement, and modalities for support.

how to facilitate coordination among providers and different in-country stakeholders, such as business and civil society organizations.

16. **Recommendation 2 (c)**: The Platform for Collaboration on Tax Matters to develop mechanisms to support the development of coordinated plans for the work of all development providers in relation to the implementation of tax planning strategies to address base erosion and profit shifting and wider international tax issues.

Enabler 2.1: Avoiding fragmentation in the delivery and receipt of support

17. **Recommendation 2 (d)**: Providers and recipients of capacity-building support on tax matters should be well coordinated, including: effective coordination across different agencies active in tax reform in recipient countries, fully supported by providers of capacity-building support ("whole of Government" approach); while international organizations should ensure internal coordination where they are active in different areas affecting the tax system and across their different entry points into taxation ("whole of institutions" approach).

18. **Recommendation 2 (e)**: Group of 20 and development partners should more effectively facilitate the participation of their serving tax officials in capacity-building, including through the timely and efficient release of such officials to participate in capacity-building efforts.

Enabler 2.2: Clear and common measures of the effectiveness of support

19. **Recommendation 2 (f)**: The Platform for Collaboration on Tax Matters will review the range of results indicators currently used with a view to establishing a sound-practice results frameworks and guidance to track progress in ongoing reforms of the tax system (policies and administration) against a broad range of indicators, taking into account the need to ensure a proper balance between the needs of development partners and reporting burdens, and the appropriate application within the country context.

Enabler 3: A strong knowledge and evidence base

20. **Recommendation 3 (a)**: Partners in the Platform for Collaboration on Tax Matters and others to intensify their collaborative work to produce comparable and reliable data on revenue statistics and key tax policy parameters, and to intensify their efforts to build statistical capacity in the tax area (including in revenue administrations) while avoiding unnecessary duplication.

21. **Recommendation 3 (b)**: Group of 20 to encourage full participation in the International Survey of Revenue Administrations, leading by example.[d]

Enabler 4: Strong regional cooperation and support

22. **Recommendation 4**: Countries members of the Group of 20 and development partners to continue to work in close partnership with regional tax organizations and to provide support for: increasing their strength and coverage; fostering local

[d] An initiative of the Inter-American Center of Tax Administrations, IMF, the Intra-European Organization of Tax Administrations and OECD to collect comparable global data on revenue administration.

networks and the exchange of experiences; supporting capacity-building in targeted areas; and influencing and implementing international rule setting.

Enabler 5: Strengthened participation of developing countries in international rule setting

23. **Recommendation 5**: International organizations, regional tax organizations and development partners to support the effective participation of developing countries in international tax policy discussions and institutions. Good experiences would be disseminated with a view to scaling them up.

Enabler 6: Learning from experience

24. **Recommendation 6 (a)**: Working with other stakeholders, the Platform for Collaboration on Tax Matters will gather and disseminate experiences to gain further understanding of what has worked and what has not worked in tax development programmes, including by measuring the impact of different interventions.

25. **Recommendation 6 (b)**: International organizations will produce a follow-up report to the present report within three years to reflect lessons learned regarding effective support for capacity-building in the tax area, including on the development and implementation of the proposals covered herein.